

**29 November 2016**

**Policy, Finance and Resources Committee**

**Budget Monitoring Mid Year Review and Medium Term Financial Plan**

**Report of:** *John Chance, Finance Director*

**Wards Affected:** *All*

**This report is:** *Public*

**1. Executive Summary**

- 1.1 The Medium Term Financial Plan (MTFP) sets out the key financial management principles and budget assumptions. It is then used as the framework for the detailed budget setting process to ensure that the Council's resources are managed effectively in order to meet its statutory responsibilities and deliver the priorities of the Council, over the medium term.
- 1.2 This report provides the Policy Finance and Resources Committee with an update on the Council's
  - I. Revenue and capital projected outturn position as at the end of September 2016, including the review of the Treasury Management Strategy Statement and Annual Investment Strategy.
  - II. Medium Term Financial Strategy for 2017/18 to 2019/20.

**2. Recommendation(s)**

**The Policy, Finance and Resources Committee is recommended to:**

- 2.1 **Agree the projected outturn position for 2016/17 of the Council's General Fund revenue budget as at 30 September 2016, as detailed in paragraph 3 of the report;**
- 2.2 **Agree the projected outturn position for 2016/17 of the Council's HRA at 30 September 2016, as detailed in paragraph 4 of the report;**

**2.3 Agree the current projected position for 2016/17 of the Council's capital budget as at 30 September 2016, as detailed in paragraph 5 of the report;**

**2.4 Agree the Treasury Management Activity for the period 1 April 2016 to 31 October 2016 as detailed in paragraph 6 of the report;**

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### 3. Introduction and Background

#### General Fund - Projected Revenue Outturn 2016/17

- 3.1 The 2016/17 General Fund budget was agreed at the Council Meeting on 2 March 2016 that it would need funding of £285k from reserves, as planned, in order to break even for the financial year. Table 1 summarises the current projected General Fund spending position.

**Table 1 - General Fund - Projected Outturn 2016/17**

| Description   | Net Budget 2016/17 | Full year forecast at 30/09/16 | Variance |
|---|--------------------|--------------------------------|----------|
|   | £'000              | £'000                          | £'000    |
| Environmental Management & Housing Management   | 3,231              | 3,272                          | 41       |
| Community & Health  | 3,313              | 3,325                          | 12       |
| Economic Development  | (483)              | (474)                          | 9        |
| Planning & Licensing  | 1,263              | 1,277                          | 14       |
| Transformation  | 2,571              | 2,577                          | 6        |
| Central Expenses  | 556                | 552                            | (4)      |
| Reserves  | 168                | 90                             | (78)     |
| <b>Total Expenditure</b>  | <b>10,619</b>      | <b>10,619</b>                  | <b>0</b> |
| <b>Income</b>   | <b>(10,334)</b>    | <b>(10,334)</b>                | <b>0</b> |
| <b>Net Expenditure (to be funded from reserves as agreed at the budget setting meeting)</b> | <b>285</b>         | <b>285</b>                     | <b>0</b> |

- 3.2 An analysis of the key variances by service with explanations is provided in Appendix A to this report.
- 3.3 Officers are continuing to look at opportunities to improve upon this position across the remainder of the financial year.

### 4 Housing Revenue Account - Projected Revenue Outturn 2016/17

- 4.1 The HRA is currently forecasting to have a surplus of £207k in 2016/17. The budget was originally set with a projected surplus of £293k. This indicates that there is projected reduction in the surplus of £86k. The position is summarised in the Table 2.

**Table 2 - HRA - Projected Outturn 2016/17**

| <b>Area</b>                      | <b>Net Budget<br/>2016/17<br/>£'000</b> | <b>Full year forecast<br/>at 30/09/2016<br/>£'000</b> | <b>Over/(under) spend<br/>Forecast<br/>£'000</b> |
|----------------------------------|---|---|--|
| Total Service Expenditure        | 7,820                                   | 7,906   | 86   |
| Total Service Income             | (13,690)                                | (13,690)  | 0  |
| Corporate Costs                  | 455                                     | 455   | 0  |
| Non-Service Costs                | 4,622                                   | 4,622   | 0  |
| Appropriations                   | 500                                     | 500   | 0  |
| <b>(Surplus)/Deficit for HRA</b> | <b>(293)</b>                            | <b>(207)</b>  | <b>86</b>  |

4.2 An analysis of the key variances by service with explanations is provided in Appendix B to this report.

## **5 Capital Programme - Projected Outturn 2016/17**

5.1 The current projection for the capital programme is that it will spend £8,696m against the budget of £11,674m.

5.2 An analysis of the capital programme with explanations for variances is provided in Appendix C to this report.

## **6 Treasury Management Strategy Statement and Annual Investment Strategy - 1 April 2016 to 31 October 2016 - Executive Summary**

6.1 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Council on 2 March 2016.

6.2 The Council has adopted the Code of Practice for Treasury Management issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). One of the requirements of the Code is that members should receive a mid year review report.

6.3 This report, which covers the first seven months of the 2016/17 financial year, is presented in accordance with this requirement.

## Investments

- 6.4 The Council's investment balances at 1 April and 31 October were are outlined in Table 3.

**Table 3 - Council's Investment Balances**

|                                | <b>£000</b>   |
|--------------------------------|---------------|
| Investments at 1 April 2016    | 9,300         |
| Investments at 31 October 2016 | 24,000        |
| <b>Increase</b>                | <b>14,700</b> |

- 6.5 The increase in investment balance is largely due to the timing of council tax and business rates receipts, most of which are received over the first ten months of the financial year. An additional factor this year is the £3.6m capital receipt from the sale of Warley Training Centre in April.
- 6.6 The investment balances are expected to remain at between £20m-£24m up to the end of January 2017 and to decrease over the last two months of the financial year, as council tax and business rates tail off, but expenditure remains constant. In addition, it is planned to make a HRA loan repayment of £5m at the end March 2017.
- 6.7 The latest forecast is for the year-end investment balance to be between £10m-£12m, though the actual amount will depend on factors such as the size of any slippage on the capital programme.
- 6.8 The investments made this year have been in the form of:
- fixed term deposits with UK banks, building societies and other local authorities
  - deposits in a 95 day notice account provided by Santander UK plc
  - instant access deposits with the Council's banker, Lloyds Bank plc.
- 6.9 All investments have been in accordance with the Council's treasury management strategy.

6.10 Table 4 identifies the investments held by the Council at 31 October 2016:

**Table 4 - Investments held at 31 October 2016**

| <u>Fixed Term Deposits</u>                      | <b>Amount<br/>£'000</b> | <b>Start date</b> | <b>Maturity date</b> | <b>Interest<br/>rate</b> |
|---|-------------------------|-------------------|----------------------|--------------------------|
| <b><u>UK Banks &amp; Building Societies</u></b> |                         |                   |                      |                          |
| Lloyds Bank Plc                                 | 1,000                   | 01/12/2015        | 01/12/2016           | 1.05%                    |
| Lloyds Bank Plc                                 | 1,000                   | 04/01/2016        | 04/01/2017           | 1.05%                    |
| Lloyds Bank Plc                                 | 1,000                   | 04/04/2016        | 04/04/2017           | 0.97%                    |
| Santander UK plc                                | 1,000                   | 04/01/2016        | 03/01/2017           | 0.98%                    |
| Goldman Sachs                                   | 2,500                   | 13/04/2016        | 13/03/2017           | 0.89%                    |
| Coventry Building Society                       | 1,500                   | 01/08/2016        | 01/12/2016           | 0.39%                    |
| Coventry Building Society                       | 1,000                   | 12/08/2016        | 13/02/2017           | 0.35%                    |
| Nationwide Building Society                     | 1,000                   | 11/02/2016        | 11/11/2016           | 0.84%                    |
| Nationwide Building Society                     | 2,000                   | 04/04/2016        | 04/01/2017           | 0.84%                    |
| Nationwide Building Society                     | 1,000                   | 13/04/2016        | 13/03/2017           | 0.91%                    |
| <b><u>Local Authorities</u></b>                 |                         |                   |                      |                          |
| Blackpool Council                               | 1,000                   | 03/10/2016        | 03/11/2016           | 0.18%                    |
| Highland Council                                | 1,000                   | 18/10/2016        | 18/04/2017           | 0.27%                    |
| Leeds City Council                              | 1,000                   | 03/10/2016        | 13/01/2017           | 0.22%                    |
| Leeds City Council                              | 1,000                   | 14/10/2016        | 01/06/2017           | 0.27%                    |
| Plymouth City Council                           | 1,000                   | 31/10/2016        | 31/01/2017           | 0.24%                    |
| Thurrock Council                                | 1,000                   | 09/09/2016        | 09/12/2016           | 0.20%                    |
| Thurrock Council                                | 1,000                   | 03/10/2016        | 03/04/2017           | 0.26%                    |
| Thurrock Council                                | 1,000                   | 04/10/2016        | 04/05/2017           | 0.27%                    |
| <b><u>95 day notice account</u></b>             |                         |                   |                      |                          |
| Santander UK plc                                | 3,000                   | Call Account      |                      | 0.65%                    |
| <b>Total</b>                                    | <b>24,000</b>           |                   |                      |                          |

### **Interest rate forecast and Investment income**

- 6.11 The Base Rate was cut to a historic low level of 0.25% in August 2016, and it is forecast that there could be a further cut to 0.10% later this year in order to stimulate economic activity. This is not forecast to increase until mid 2018. The Council's budgeted investment return for 2016/17 is around £80k.

### **Borrowing**

- 6.12 Table 5 identifies the long-term loans held by the Council at 31 October 2016:

**Table 5 - Long Term Loans as at 31 October 2016**

| <b>Start date</b> | <b>Repayment date</b> | <b>Interest rate</b> | <b>Amount<br/>£'000</b> |
|-------------------|-----------------------|----------------------|-------------------------|
| 28/03/2012        | 28/03/2017            | 1.24%                | 5,000                   |
| 28/03/2012        | 28/03/2022            | 2.40%                | 5,000                   |
| 28/03/2012        | 28/03/2027            | 3.01%                | 10,000                  |
| 28/03/2012        | 28/03/2032            | 3.30%                | 15,000                  |
| 28/03/2012        | 28/03/2037            | 3.44%                | 15,000                  |
| 28/03/2012        | 28/03/2042            | 3.50%                | 14,166                  |
| 30/04/1995        | 30/04 2055            | 8.88%                | 800                     |
| 24/04/1995        | 24/02/2055            | 8.88%                | 800                     |
| 08/01/2003        | 08/01/2028            | 4.88%                | 400                     |
| <b>Total</b>      |                       |                      | <b>66,166</b>           |

- 6.13 As outlined in paragraph 6.6, the first loan is due for repayment on 31 March 2017.

- 6.14 It is anticipated that no long term borrowing will be undertaken during this financial year

## **7 Medium Term Financial Strategy 2017/18 to 2019/20**

### **Introduction and Background**

- 7.1 At the Council meeting on the 2 March 2016, Council approved the budgets for 2016/17 for the General Fund, HRA and Capital. The capital programme was amended for any carry forwards at the Council meeting on 21 June 2016.

### **General Fund**

- 7.2 The General Fund position as approved on 2 March 2016, is outlined in Table 6:



**Table 6 – General Fund Position as approved on 2 March 2016**

|                                 | <b>2016/17<br/>Estimate<br/>£'000</b> | <b>2017/18<br/>£'000</b> | <b>2018/19<br/>£'000</b> |
|---------------------------------|---------------------------------------|--------------------------|--------------------------|
| <b>Total Net Forecast Spend</b> | 10,619                                | 10,327                   | 10,520                   |
| <b>Total Funding</b>            | (10,334)                              | (9,364)                  | (8,499)                  |
| <b>Funding Gap</b>              | <b>285</b>                            | <b>963</b>               | <b>2,021</b>             |
|                                 |                                       |                          |                          |
| <b>Working Balance b/fwd</b>    | <b>3,961</b>                          | <b>3,376</b>             | <b>2,063</b>             |
| <b>Less:- Funding Gap</b>       | 285                                   | 963                      | 2,021                    |
| <b>Less: Earmarked for WHW</b>  | 300                                   | 350                      | -                        |
| <b>Working Balance c/fwd</b>    | <b>3,376</b>                          | <b>2,063</b>             | <b>42</b>                |

### **Issue, Options and Analysis of Options**

#### **Finance Settlement**

- 7.3 As detailed information on funding will not be available till late December 2016, the funding assumptions are as per those reported at the budget setting meeting on 2 March 2016. These are detailed in the paragraphs below.

#### **Phasing Out of Revenue Support Grant**

- 7.4 As announced in December 2015, Revenue Support Grant (RSG) will be phased out entirely by 2019/20. This will 'pave the way for the implementation of 100% business rate retention' and will assess the main income streams available to local government, including council tax and business rates. Guidance on the implementation of this are awaited.
- 7.5 The funding implications of the phasing out of RSG (which accounts for the majority of the anticipated funding gap as shown in Table 11) are outlined in Table 7.

**Table 7 - Revenue Support Grant Funding**

|                          | <b>2016/17<br/>Estimate<br/>£'000</b> | <b>2017/18<br/>Indicative<br/>£'000</b> | <b>2018/19<br/>Indicative<br/>£'000</b> | <b>2019/20<br/>Indicative<br/>£'000</b> |
|--------------------------|---------------------------------------|---|---|---|
| Revenue Support Grant    | 710                                   | 233                                     | Nil                                     | Nil                                     |
| Tariff/Top-Up adjustment | Nil                                   | Nil                                     | (52)                                    | (370)                                   |
| Council Tax Freeze Grant | Nil                                   | Nil                                     | Nil                                     | Nil                                     |
| <b>TOTAL</b>             | <b>710</b>                            | <b>233</b>                              | <b>(52)</b>                             | <b>(370)</b>                            |

### New Homes Bonus

- 7.6 Details of reforms to the New Homes Bonus (NHB) were set out as part of the local government finance settlement consultation in December 2015. The Government's preferred options lead to savings in the grant of at least £800m, 'which was then earmarked to be used for social care'. The proposals for changes to the NHB included reforms 'sharpening the incentive to reward communities for additional homes' and also reduced the length of bonus payments for new homes from 6 years to 4 years. This will occur from 2018/19. The profile of the Grant payments is outlined in Table 8.

**Table 8 – New Homes Bonus Grant**

|              | 11/12      | 12/13      | 13/14      | 14/15        | 15/16        | 16/17        | 17/18        | 18/19        | 19/20        |
|--------------|------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|
|              | £'000      | £'000      | £'000      | £'000        | £'000        | Est<br>£'000 | Est<br>£'000 | Est<br>£'000 | Est<br>£'000 |
| Yr 1         | 255        | 255        | 255        | 255          | 255          | 255          |              |              |              |
| Yr 2         |            | 214        | 214        | 214          | 214          | 214          | 214          |              |              |
| Yr 3         |            |            | 330        | 330          | 330          | 330          | 330          | 207          |              |
| Yr 4         |            |            |            | 416          | 416          | 416          | 416          | 261          | 261          |
| Yr 5         |            |            |            |              | 241          | 241          | 241          | 151          | 151          |
| Yr 6         |            |            |            |              |              | 167          | 167          | 105          | 105          |
| Yr 7         |            |            |            |              |              |              | 266          | 167          | 167          |
| Yr 8         |            |            |            |              |              |              |              | 136          | 136          |
| Yr 9         |            |            |            |              |              |              |              |              | 136          |
| <b>TOTAL</b> | <b>255</b> | <b>469</b> | <b>799</b> | <b>1,215</b> | <b>1,456</b> | <b>1,623</b> | <b>1,634</b> | <b>1,027</b> | <b>956</b>   |

### Planning Assumptions for 2016/17 to 2018/19 Pay Awards (Inflation)

- 7.7 For financial planning purposes a 1% increase has been included for 2017/18 onwards.

### Pressures

- 7.8 The current pressures are outlined in Table 9.

**Table 9 – General Fund – Current Pressures**

| Description   | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 |
|---|------------------|------------------|------------------|
| <b>Pressures</b>  |                  |                  |                  |
| Income from Public Sector Hub                           | 272              | 272              | 73               |
| Rent Reviews and New Leases                             | 10               | 10               | 10               |
| Sale of Services  | 10               | 10               | 0                |
| <b>Total Pressures</b>                                  | <b>292</b>       | <b>292</b>       | <b>83</b>        |
| <b>Other Pressures<br/>(To be funded from Reserves)</b> |                  |                  |                  |
| Town Hall Project                                       | 118              | 71               | 0                |

### Funding/Anticipated Savings

7.9 The current increase in funding and anticipated savings are outlined in Table 10:

**Table 10 – Increase in Funding/Anticipated Savings/Pressures**

| Description  | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 |
|--|------------------|------------------|------------------|
| Increase in Council Tax Base<br>(assumes no increase in Council Tax) | (23)             | (23)             | (24)             |
| Assumed Collection Fund Surplus                                      | (125)            | 0                | 0                |
| Waste Transfer Station - Anticipated Saving                          | (80)             | (80)             | (80)             |
| <b>Total</b>   | <b>(228)</b>     | <b>(103)</b>     | <b>(104)</b>     |

7.10 **Council Tax Base:** It is estimated that the Council Tax base will increase by around 294 Band D equivalent properties. The impact of this will be an increase in income of around £23k to that already budgeted for in the MTFs report agreed on 2 March 2016.

7.11 **Collection Fund:** Initial calculations indicate that the Collection Fund will have a surplus of around £125k. Please note that this is a 'one off' amount.

7.12 **Council Tax:** Members should note that if a decision is made to increase the Council Tax by the amount permitted without having a referendum, (which currently is an increase of up to 2% or £5 (whichever is the higher figure) for a Band D property), this will provide additional income and also increase the Council's base budget position by £160k in 2017/18.

7.13 **Waste Transfer Station:** A facility for waste and recycling storage is being constructed at the Depot. This will provide the opportunity to seek economies through the direct handling of waste material: such as dry recyclables, food waste and fly-tipped material. This will achieve savings of £80k in a full year.

### Summary on General Fund

7.14 Table 11 shows the impact on the original funding position (outlined in Table 6 at paragraph 7.2), together with the updated information identified through the Half Year Budget Review process:

**Table 11 - Revised General Fund Position**

|  | <b>2016/17<br/>£'000</b> | <b>2017/18<br/>£'000</b> | <b>2018/19<br/>£'000</b> | <b>2019/20<br/>£'000</b> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Total Net Forecast Spend</b>                                  | 10,619                   | 10,327                   | 10,503                   | 10,666                   |
| <b>Total Funding</b>   | (10,334)                 | (9,364)                  | (8,499)                  | (8,140)                  |
| <b>Funding Gap</b>   | <b>285</b>               | <b>963</b>               | <b>2,004</b>             | <b>2,526</b>             |
| <b>Current Pressures</b>   | 0                        | 292                      | 292                      | 83                       |
| <b>Increase in<br/>Funding/Anticipated<br/>Savings/Pressures</b> | 0                        | (228)                    | (103)                    | (104)                    |
| <b>Total Funding Gap</b>   | <b>285</b>               | <b>1,027</b>             | <b>2,193</b>             | <b>2,505</b>             |
|  |                          |                          |                          |                          |
| <b>Working Balance b/fwd</b>                                     | <b>3,965</b>             | <b>3,680</b>             | <b>2,185</b>             | <b>(79)</b>              |
| <b>Less: Total Funding Gap</b>                                   | 285                      | 1,027                    | 2,193                    | 2,505                    |
| <b>Less: Earmarked for WHW</b>                                   | 300                      | 350                      | -                        | -                        |
| <b>Less: Earmarked for Town<br/>Hall Project</b>                 | -                        | 118                      | 71                       | -                        |
| <b>Working Balance c/fwd</b>                                     | <b>3,680</b>             | <b>2,185</b>             | <b>(79)</b>              | <b>(2,584)</b>           |

7.15 Table 11 identifies a potential funding gap of around £5.7m over the next 3 years. This is clearly not financially sustainable and the Council is currently considering a detailed medium and longer term strategy to reduce costs and generate significant income to the Council in order to bridge the funding gap. Additional details will be brought to the next P,F&R Committee, which will form part of the budget proposals.

#### **Working Balances and Reserves**

7.16 A minimum General Fund Working Balance of £2.2m has been agreed. In accordance with best practice, an annual risk assessment will be undertaken to check the level required for 2017/18. Due to the size of the gap it is likely savings will continue to be developed throughout 2017/18 to reduce the draw down from reserves.

7.17 In addition to the General Fund Working Balance, the Council keeps a number of Earmarked Reserves on the Balance Sheet. These Reserves are required in order to comply with proper accounting practice, whilst others have been created to earmark resources for

known or predicted liabilities. The balance of these Reserves as at 1 April 2016 is £2.5 million.

## **HOUSING REVENUE ACCOUNT**

7.18 The HRA is the budget operated by the Council which contains the income and expenditure of services connected with the Council's Housing Landlord role.

7.19 The main source of income into the HRA is the rental income from the properties let by the Council. These rents are calculated by reference to a Government formula which provides a target rent for the Council's properties to reach over a period of time.

## **8. Reasons for Recommendation**

8.1 Effective financial management underpins all of the priorities for the Council and will enable the Council to operate within a sustainable budget environment.

## **9. Implications**

### **Financial Implications**

**Name & Title: Ramesh Prashar, Financial Services Manager**

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9.1 The financial implications are set out in the report.

### **Legal Implications**

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9.2 There are no direct legal implications arising from this report.

## **10. Consultation**

10.1 None

## **11. References to Corporate Plan**

11.1 The Council's budget is linked to achieving the Vision in the Corporate Plan.

## **12. Background Papers**

12.1 Available in the Finance Department.

### **13. Appendices to this report**

- Appendix A An analysis of the key variances by service with explanations – General Fund
- Appendix B An analysis of the key variances by service with explanations – HRA
- Appendix C An analysis of the capital programme with explanations for variances – Capital Programme

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